

Message Text

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SUBJECT: YEAR END ECONOMIC ROUND-UP

SUMMARY: 1973 SAW SUBSTANTIAL ECONOMIC ACHIEVEMENT. SOME PROBLEMS CONTINUING (LABOR,INFLATION) AND NEW ONES APPEARING (RAW MATERIAL SHORTAGES,LOW FIXED INVESTMENT,RAND APPRECIATION). OIL CRISIS SEEN MORE AS INDIRECT (I.E., INCREASED PRICES,WORLD-WIDE ECONOMIC SLOW DOWN) RATHER THAN DIRECT THREAT.IN SPITE OF INCREASED INTERNATIONAL HOSTILITY,RELATIONS WITH KEY TRADING PARTNERS INTACT AND RECENT EVENTS SEEN AS ENHANCING IMPORTANCE OF SA (GOLD, CAPE ROUTE,COAL). GENERAL PROGNOSIS IS FOR EVEN BETTER PERFORMANCE IN 1974 THOUGH THIS MUST BE TEMPERED WITH CAUTION GIVEN UNCERTAINTIES IN THE SITUATION.END SUMMARY.

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QM SA CAN LOOK BACK ON 1973 AS A YEAR OF SUBSTANTIAL ECONOMIC

ACHIEVEMENT THOUGH SERIOUS PROBLEMS REMAINED UNSOLVED. PRELIMINARY ESTIMATES INDICATE REAL GDP GROWTH OF 5 PERCENT; GNP AT CURRENT PRICES SET AT \$31.3 BILLION. RATE OF GROWTH ACCELERATED IN SECOND HALF OF YEAR FUELED PRIMARILY BY CONSUMER DEMAND AND MANUFACTURING ACTIVITY. B/P WILL PROBABLY SHOW A SURPLUS ON ORDER OF \$104.3 MILLION REFLECTING IMPROVED TRADE BALANCE AND APPROXIMATELY 50 PERCENT INCREASE IN NET RETURN ON GOLD. NET CAPITAL INFLOWS FELL SHARPLY. RESERVES DECLINED SOMEWHAT, ESPECIALLY FROM THE AUGUST PEAK LEVELS, BUT STILL STAND AT COMFORTABLE LEVEL OF \$1.2 BILLION. IN GENERAL, GOVT. POLICY TO PROMOTE HEALTHY GROWTH APPEARS TO HAVE PAID OFF.

2. MAJOR PROBLEMS WHICH PLAGUED ECONOMY THROUGHOUT THE YEAR WERE INFLATION AND BLACK LABOR. SAG'S EFFORTS TO GROW OUT OF INFLATION WERE THWARTED BY INCREASES IN AGRICULTURAL PRICES, VARIOUS COST INCREASES, SIZEABLE PRICE INCREASES IN SERVICES, AND IMPORTED INFLATION. IT ESTIMATED THAT FOR YEAR, RATE OF INFLATION WILL BE ON ORDER OF 10 PERCENT. BLACK LABOR UNREST WHICH OPENED THE YEAR QUITED DOWN AND SOME IMPROVEMENTS IN THIS AREA WERE RECORDED: MARGINAL WAGE INCREASES, NEW LEGISLATION REVISING WORKS COMMITTEES AND GRANTING LIMITED RIGHT TO STRIKE, SOME FLEXIBILITY IN JOB RESERVATIONS, AND PLANS FOR GOVT. SPONSORED TRAINING PROGRAMS FOR BLACKS IN INDUSTRIAL AREAS. HOWEVER, WAGE INCREASES PROBABLY EATEN UP BY INFLATION, NEW LEGISLATION REMAINS UNTESTED, AND TRAINING PROGRAM EVEN WHEN OPERATIVE INSUFFICIENT TO ECONOMY'S NEED FOR SKILLED LABOR.

3. TOWARDS END OF YEAR, EVENTS CAST SOME DOUBTS ON PREDICTIONS UP TO THEN OF CONTINUED EXPANSION. PRIVATE SECTOR RESPONSE TO GOVT. EFFORTS AND GROWTH ACTUALLY ACHIEVED LAGGED IN AREA OF FIXED INVESTMENT, REFLECTING IN PART CONTINUING CONCERN ABOUT FUTURE GOVT. MEASURES AND UNCERTAIN

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INTERNATIONAL CLIMATE. SERIOUS SHORTAGES APPEARED IN STEEL, CHEMICAL RAW MATERIALS, TIMBER AND TEXTILES, LARGELY BECAUSE OF WORLD-WIDE SHORTAGE. APPRECIATION OF RAND (TECHNICALLY LINKED TO DOLLAR) RAISED QUESTIONS ABOUT EXPORT PERFORMANCE AND IMPORTED INFLATION.

4. MOST SERIOUS CAUSE FOR CONCERN, HOWEVER, WAS OIL CRISIS. CONCERN WAS NOT RPT NOT SO MUCH DIRECT EFFECT OF ANNOUNCED

TOTAL EMBARGO OF SA BY ARAB PRODUCERS AS MUCH AS INDIRECT EFFECTS THOUGH INCREASED PRICES AND ANTICIPATED WORLD-WIDE ECONOMIC SLOWDOWN.WITH EXCEPTION OF FREAK SHORTAGE OF GAS AND SERIOUS PROBLEM WITH BUNKER FUELS,DOMESTIC SUPPLIES APPEARED RELATIVELY NORMAL THROUGH END OF YEAR.(DISLOCATIONS ARISING OUT OF SECONDARY SHORTAGES,ESPECIALLY IN CHEMICAL INDUSTRY,WILL NOT APPEAR UNTIL LATER IN 1974.) GOVT. HAS TAKEN STANDARD GASOLINE CONSERVATION MEASURES AND, PROBABLY MORE IMPORTANT,PSYCHOLOGICALLY PREPARED POPULACE FOR FUTURE RESTRICTIONS INCLUDING RATIONING.NEW CAR SALES DID SLUMP IN DECEMBER,A TYPICAL PUBLIC REACTION,AND EMPLOYEE LAY OFFS HAVE BEEN NOTED BOTH IN MANUFACTURING AND FUEL RELATED SERVICES SECTOR, EG. GASOLINE STATIONS.

5. ALTHOUGH RELATIONS WITH KEY TRADING PARTNERS REMAINED INTACT AND VARIOUS INTERNATIONAL ECONOMIC CRISIS SEEN AS REAFFIRMING INTERNATIONAL IMPORTANCE OF SA (GOLD,ENERGY SOURCES,CAPE ROUTE,ETC), INTERNATIONAL OPPOSITION TO SA BECAME MORE MANIFEST AS EVIDENCED BY UN DISCUSSIONS,AND MORE CONCRETELY,COOLING RELATIONS WITH AUSTRALIA AND NEW ZEALAND.PSYCHOLOGICAL IMPACT OF THIS DIFFICULT TO MEASURE BUT COUPLED WITH WHAT PERCEIVED TO BE VOLATILE INTERNATIONAL INVESTMENT SCENE,IT DOES NOT RPT NOT REENFORCE BUSINESS CONFIDENCE.

6. IN SPITE OF THESE PROBLEMS AND CONCERNS,SA APPEARS TO BE ENTERING NEW YEAR WITH OPTIMISM.FOR EXAMPLE,PRESTIGIOUS STELLENBOSCH BUREAU FOR ECONOMIC RESEARCH PREDICTING REAL GDP GROWTH OF 6.5 PERCENT.PROJECTION BASED
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ON ACCELERATED GROWTH OF TOTAL DOMESTIC DEMAND,LOWER RATE OF INFLATION,GREATER VERTICAL AND HORIZONTAL MOBILITY OF BLACK LABOR,INCREASED RATE OF PRIVATE FIXED INVESTMENT,DETERIORATION IN TRADE BALANCEAS RESULT OF INCREASED IMPORTS,RECOVERY OF CAPITAL INFLOWS TO PREVIOUS LEVELS OF ABOUT \$500 MILLION,AND INCREASED GOLD EARNINGS.AGRICULTURAL YEAR PROMISES TO BE GOOD.BER PREDICTION WHICH IS HEDGED WITH CAUTIOUS ABOUT UNCERTAIN FUTURE IS GENERALLY ECHOED IN MOST LOCAL ASSESSMENTS OF THE FUTURE.

7. COMMENT:

WITHOUT DENYING BASIC STRENGTHS OF SA ECONOMY, THERE ARE REASONS TO BE LESS SANGUINE ABOUT 1974 PROSPECTS. INFLATION,RISING EXPECTATIONS,AND INCREASING UNEMPLOYMENT MAY WELL PRODUCE RENEWED BLACK LABOR UNREST.SKILLED LABOR,INDUSTRIAL CAPACITY,AND FINANCING BOTTLENECKS WHICH

REMAINED PRETTY MUCH IN BACKGROUND IN 1973 MAY WELL COME TO
THE FORE DURING 1974. BUSINESS ESTIMATE OF FUTURE IS CRITI-
CAL FACTOR AND AS YET THERE IS LITTLE EVIDENCE THAT THE PRI-
VATE SECTOR WILL RESPOND AS NECESSARY TO PRODUCE DESIRED
GROWTH RATE. UNCERTAINTY ON INTERNATIONAL ECONOMIC SCENE
CONTRIBUTES TO THIS, IS CLEARLY BEYOND THE CONTROL OF SAG,
AND DOES NOT APPEAR AMMENDABLE TO EARLY SOLUTION. IN SUM,
THERE ARE MANY PROBLEMS CONFRONTING SA ECONOMY AND SUCCESS
IN ACHIEVING DESIRED RATE OF GROWTH WILL TO MAJOR EXTENT DE-
PEND ON GOVT.'S RESPONSE TO THEM. SAG RECORD OF ECONOMIC
MANAGEMENT BASICALLY GOOD BUT PROBABILITY OF ELECTION THIS
YEAR COUPLED WITH SOCIAL IMPLICATIONS OF MANY PROBLEMS THEY
FACING COULD SERIOUSLY LIMIT FLEXIBILITY OF RESPONSE.
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